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Directorate of Intelligence

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An Update on Soviet Grain Purchases

Summary

Based on our 1984 grain crop estimate of 180 million metric tons, we projected late last summer that the USSR would be short some 45-50 million tons of the grain required to maintain seed, food, and industrial use at recent levels; to achieve planned 1984 output targets for meat, milk, and eggs; and to continue expanding output of livestock products into 1985. The USSR began lining up grain imports early in the July 1984-June 1985 marketing year. We believe that Soviet purchases for the marketing year are now approaching a new high of 50 million tons. The Soviet port and rail systems appear to be coping with record monthly shipments of grain. Congestion appears to be moderate. 25X1

This winter's unusually cold weather, however, apparently increased livestock feed requirements. Grain, which is more easily transported than roughages, is in particular demand. The USSR still has the option of boosting grain purchases and shipments to 55 million tons or even higher if purchases begin soon. At present, Moscow does not appear to be moving in this direction. If, as we believe likely, exports to the USSR come to about 50 million tons in the current marketing year, the cost will be an estimated $7 billion. 25X1

Even with no additional purchases, the late 1984 slowdown in output of livestock products will be offset, at least partially, later this year as new feed supplies from domestic production become available. Although the 1985 meat production target--18.2 million tons, 1.5 million tons more than was produced in 1984--is probably out of reach, an increase of several hundred thousand tons can be achieved if the grain and roughage crops are average or better. 25X1

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This memorandum was prepared by Soviet Economy Division, SOVA, with contributions from Soviet Economy Division, SOVA, Economics Division, OGI, and Geography Division, OGI. Comments and queries are welcome and may be directed to Chief, Soviet Economy Division 25X1

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Grain Trade Activity

To date--two-thirds of the way through the 1984/85 marketing year--we have confirmation that Moscow has bought at least 40 million tons of grain, and [redacted] Soviet commitments may actually be approaching 50 million tons (see table 1). 25X1

The United States. Soviet purchases of US grain now total 19.7 million tons for the marketing year--nearly double last year's purchases.

Canada. Canadian sales stand at 6 million tons. Under the long-term agreement (LTA) the USSR is committed to buying an additional 1 million tons by the end of July.

Argentina. In addition to reported sales of 3 million tons of new-crop wheat, Argentine grain traders reportedly have sold 1.5 million tons of wheat since late January and 4 million tons of new-crop coarse grains for delivery from April through June.[1] Problems in shipping such large quantities of grain from its ports, however, probably will prevent Argentina from fully meeting these commitments by the end of the marketing year.

European Community. Sales of EC grain to the USSR now reportedly stand at 5-6 million tons, up at least 30 percent from last year's level.

[1] In addition, 1.4 million tons of coarse grains were shipped during July-September under the agreement for calendar 1984. [redacted] 25X1

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Table 1

USSR: Grain Purchases for Delivery During the July-June Marketing Year

(million metric tons)

	1983/84	1984/85[1]
Total	32.0	40.3-49.4
United States	10.4	19.7
Canada	6.3	6.0-7.0
Argentina	6.9	4.4-9.9
European Community	3.8	5.0-6.0
Australia	1.7	2.1
Eastern Europe	2.0	0.4-2.0
Other	0.9	2.7

1 The lower figure represents confirmed grain purchases; the higher number reflects probably commitments. 25X1

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Australia. The USSR bought 750,000 tons of wheat early in the marketing year and recently purchased 950,000 tons of wheat and 400,000 tons of barley.[2]

Eastern Europe. Although the only confirmed Soviet transaction is for 400,000 tons of Polish rye, East European countries, mainly Hungary and Romania, have traditionally supplied about 2 million tons of grain to the USSR.[3]

Other. Moscow also has sought grain from several smaller suppliers--Thailand, Sweden, and Austria--and from non-traditional sources such as China and India. Total purchases from these sources stand at about 3 million tons. [redacted] 25X1

Coping With Heavy Imports

According to USDA estimates, grain shipments to the USSR were close to 5 million tons per month during September through November, resulting in record monthly deliveries of grain to the USSR during the period October-December.[4] Soviet grain ports apparently have been offloading and clearing grain inland at higher rates than during the same months in the 1981/82 marketing year, when exports to the USSR reached 45 million tons. [redacted] the average stay 25X1 (turnaround time) for ships that were departing Soviet grain

[2] Some of the barley may be of New Zealand origin. [redacted] 25X1

[3] The Polish rye is in exchange for Soviet wheat to supplement lagging Soviet rye production. [redacted] 25X1

[4] We assume an average travel time of one month between exporting countries and Soviet ports. [redacted] 25X1

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ports in early February was 28 to 35 days. An average stay slightly longer than this was recorded in December 1981, when monthly grain deliveries at the country's ports and rail border crossings hit a December record of 3.7 million tons. [redacted] 25X1

As in previous periods of high grain imports, the Soviets are transshipping some of their grain through major West European ports such as Hamburg and Antwerp. Cargoes delivered there are picked up by shallow-draft Soviet vessels that take the grain to facilities in secondary ports--such as Kaliningrad on the Baltic and Kherson on the Black Sea. These secondary ports cannot handle the 60,000-ton bulk carriers that carry the grain across the Atlantic. After ice has cleared from Soviet inland waterways in March and April, the grain can be transshipped in small vessels from West European ports directly to destinations in the USSR's interior. [redacted] 25X1

Severe ice conditions by early February, however, were inhibiting operations in Baltic ports. The Soviets are therefore sending a higher than usual proportion of grain ships to the Black Sea. Consequently, the tonnage of grain that can be offloaded and moved inland probably will be reduced during February and March, the two months in which grain operations are most seriously constrained by weather and other seasonal factors. In addition, as a result of problems moving the grain inland, port congestion is expected to increase during the period. Although USDA is currently estimating exports to the USSR for January and February (for arrival at Soviet ports during February and March) at an average of 4.7 million tons per month, we believe exports will be closer to 4 million tons a month since actual shipments generally are somewhat less than anticipated. This would still be a hectic pace for this time of year—and 25 percent higher than during the corresponding months in the 1981/82 marketing year. The volume of grain actually reaching the USSR in February and March could even be somewhat less, because a larger share of imported grain is coming from Argentina or is being transhipped into the USSR through Western Europe, thus increasing the travel time to Soviet ports to more than one month. [redacted] 25X1

Except for an initial shortage of freight cars at the ports in October, the Soviet rail system apparently has so far not had great difficulty in moving the grain inland. Improvements in the transport system's capability to move both domestic and imported agricultural products during the past five years undoubtedly have eased some of the bottlenecks that curtailed grain shipments previously. [redacted] 25X1

Nonetheless, unusually cold weather during December and heavy snows in January have taken their toll on the Soviet rail system. In January, the rail system handled 20 million tons of freight less than planned, a shortfall of more than 5 percent. Thus, it is uncertain whether the Soviets can move imported grain inland at the rate demonstrated earlier this marketing year. The northern ports are becoming ice-locked, southern ports are experiencing increased congestion, and the railways are straining to meet schedules despite slowdowns caused by freezing cargoes and drifting snow. [redacted] 25X1

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Factors Affecting Domestic Grain Demand

Any major transport problems--either at the ports or moving grain inland--could affect livestock product output this year. Although meat, milk, and egg production reached new records in 1984, meat output did not reach plan (see tabulation). Feed apparently was in shorter supply in late 1984 than it was in late 1983. 25X1

	1983			1984		
	Plan	Actual	Difference	Plan	Actual	Difference
Meat (million tons)	16.2	16.4	+0.2	16.8	16.7	-0.1
Milk (million tons)	94.0	96.4	+2.4	97.1	97.6	+0.5
Eggs (billions)	71.3	74.7	+3.4	74.7	76.0	+1.3

During January-November, production of meat on state and collective farms--which acount for two-thirds of the total--was running five percent ahead of the comparable period in 1983. Prospects for meeting, perhaps even exceeding, planned output goals for meat, milk, and eggs appeared good. The less-than-anticipated gains in livestock product output, however, may have not resulted only from weather-related problems in December. Production of meat by the private sector, which accounts for about 30 percent of the total, could have dropped absolutely as a result of (1) individuals choosing to produce more meat under

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contract to farms in exchange for feed and other assistance--the individual sales--or (2) individuals choosing not to produce at all, indicating a lack of success in the government campaign to encourage private meat production and ensure the availability of livestock feed. Private farmers reportedly were having serious difficulty obtaining feed during November and December. 25X1

At the same time, the unusually cold weather this winter--especially in December when temperatures averaged 7° C below normal--increased feed requirements substantially. Soviet authorities report that under normal weather conditions feed consumption per unit of output is 45 to 50 percent higher during December-March than during April-November. In more severe weather, the difference can be as much as 70 percent. The severe cold last December raised the demand for feed supplies and probably reduced animal productivity--weight gain per animal and milk yield--more sharply than usual. In contrast to the current situation, milder-than-normal winters in 1982/83 and 1983/84 reduced feed requirements. Indeed, the mild 1983/84 winter (combined with the excellent 1983 forage harvest) enabled animal productivity to increase instead of registering the usual winter decline. 25X1

End-year 1984 statistics also revealed the slowest growth in livestock inventories since 1980, perhaps in part a response to the additional need for feed. The number of cattle was up by only 1.2 million, half of the increase registered during 1983; hog numbers were down by almost 1 million, the first reduction in three years and nearly double the combined cuts that occurred in

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1980 and 1981; and sheep and goat numbers dropped back to the 1982 level. Because hog rations consist largely of grain and other concentrated feeds, this reduction in inventories offset in part the additional need for concentrates generated by the cold. [redacted] 25X1

Although temperatures moderated in January, most areas of the USSR were 2° to 3° C below normal until late in the month. Soviet officials were clearly worried. Meeting at the end of the month, the RSFSR Council of Ministers pointed to falling animal productivity while criticizing the incorrect use of feed, the failure of feed mills to operate adequately, and the disruption in fuel and oil deliveries to farms. [redacted] 25X1

<u>Outlook</u>

The additional requirements for grain and other feeds arising from the severe cold cannot be estimated with any precision as yet. Because grain can be used in place of roughages, which are bulky relative to weight and seldom moved long distances, grain requirements will be increased as roughage supplies--which generally cannot be replenished until new growth begins in spring--are depleted. The intense cold so far, however, could have raised grain requirements by as much as 5 million tons over our original projection of 45-50 million tons. The original projection is based on a grain crop estimated at 180 million tons. Recently a propaganda lecturer in Leningrad claimed the 1984 grain crop was 186 million tons. If his statement proves true, our projections of grain needs may be too high and Moscow may be using some imported grain to add to

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stocks. The US Department of Agriculture, on the other hand, estimates the USSR's 1984 grain crop at 170 million tons and imports at 50 million tons, implying a stock drawdown. 25X1

Farms, however, are coping reasonably well. Preliminary statistics on state and collective farm activity in January indicate that growth in meat production for the month reached the 8 percent rate of January 1984. Some increase in slaughter of hogs and poultry, combined with newly authorized latitude for farms in selected areas to cull barren cows, not only reduced pressure on available feed supplies but maintained the movement of meat and poultry to processing plants.[5] 25X1

Moscow still has the option of boosting imports to the maximum level its port and rail systems can handle. Shipments at an average rate of 5 million tons a month during March-June--a level that appears feasible given the transport sector's recent performance--would permit exports to the USSR for the current marketing year to reach 55 million tons. Competing needs for railcars, particularly this summer when the last of these shipments would be arriving, are likely to deter Moscow from sustaining such a level into June, however. Traditionally, the pace of grain exports to the USSR slows in June (for July arrival) so that grain cars can be made available to support the current year grain harvest. 25X1

[5] Until recently all farms were required to have seven separate off-farm authorizations before sending a cull-cow to slaughter. Last year several regions, including the Tatar ASSR, authorized farms to carry out culling independently, with beneficial results. 25X1

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[redacted]

If Moscow is to move in this direction, however, purchasing would have to revive soon. [redacted] 25X1 [redacted] the USSR is expected to reenter the US market shortly for 2 million tons of corn for shipment in April and May. 25X1 Although such purchases could reflect an increased need for grain supplies, Moscow may be anticipating that Argentine shipping facilities will be unable to fully meet a Soviet demand for coarse grain shipments of 4 million tons during April-June. [redacted] an <u>Eksportkhleb</u> official 25X1 indicated that his organization wishes to avoid the excessive handling costs that occurred last year due to congestion at Argentine ports. We therefore believe it likely that exports to the USSR for the 1984/85 marketing year will be about 50 million tons (see figure 1). [redacted] 25X1

Grain purchases of 50 million tons will cost Moscow approximately $7 billion, about $2 billion more than in the 1983/84 marketing year. The cost would have been higher if trends in the price and mix of grain imports had not worked in Moscow's favor. While wheat prices have remained relatively constant over the last few years, the USSR is buying coarse grain at lower prices than in the last marketing year due to a bumper US crop in 1984 and prospects for a good Argentine crop this spring. The USSR has also reduced its costs this year by increasing the share of coarse grains--generally less expensive than wheat--in its total purchases. [redacted] 25X1

Even if Soviet grain purchases do not rise above the level that we currently estimate, the late 1984 slowdown in production

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of meat, milk, and eggs will be offset at least partially this spring and summer as pasture becomes usable and feed from domestic grain and roughage crops becomes available. In addition, because animals in general went into the winter in good condition, former productivity levels should be regained quickly with warmer weather. Although the planned 1985 meat production target--18.2 million tons, 1.5 million tons more than was produced in 1984--is probably out of reach, an increase of several hundred thousand tons can be achieved if the grain and roughage crops reach the 1976-80 average level or better. [redacted] 25X1

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